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**DIRECTORATE OF
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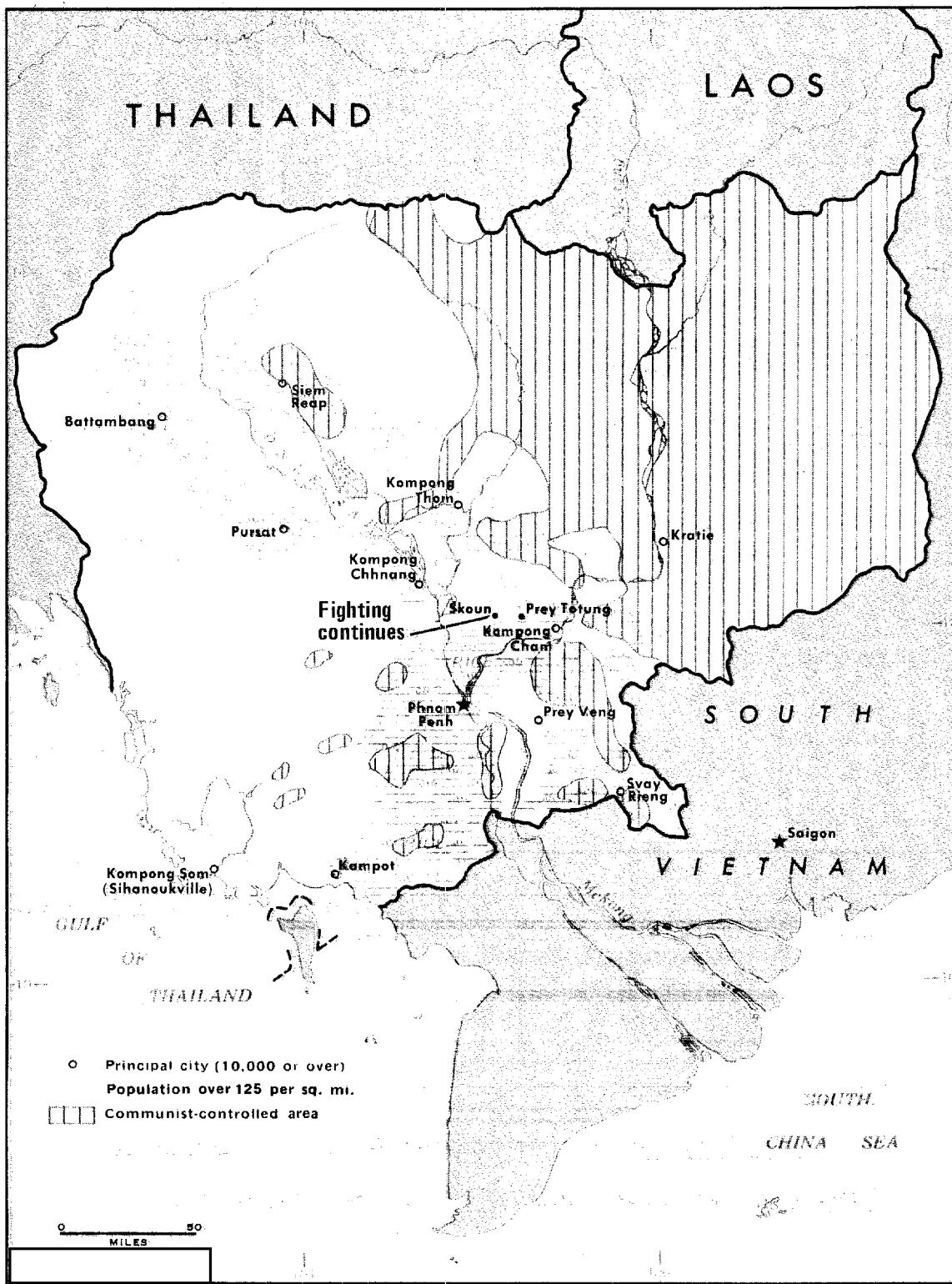
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CAMBODIA: Current Situation



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Military Developments

[Late press reports indicate that Khmer Krom troops, supported by air strikes, finally succeeded in recapturing Skoun early today. No casualty figures were announced, but Cambodian losses apparently were light. East of Skoun, government defenders in the town of Prey Totung continued to fend off Communist harassing attacks.]

In the west, the enemy continues to harass Kompong Thom with intermittent mortar fire, but no new major ground actions were reported there.

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at least half the enemy attack force consisted of ethnic Cambodians. These may have been Cambodian Communist insurgents who, according to recently captured documents, were formed into a new battalion of the Viet Cong 275th Regiment in mid-June.

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 (Map)

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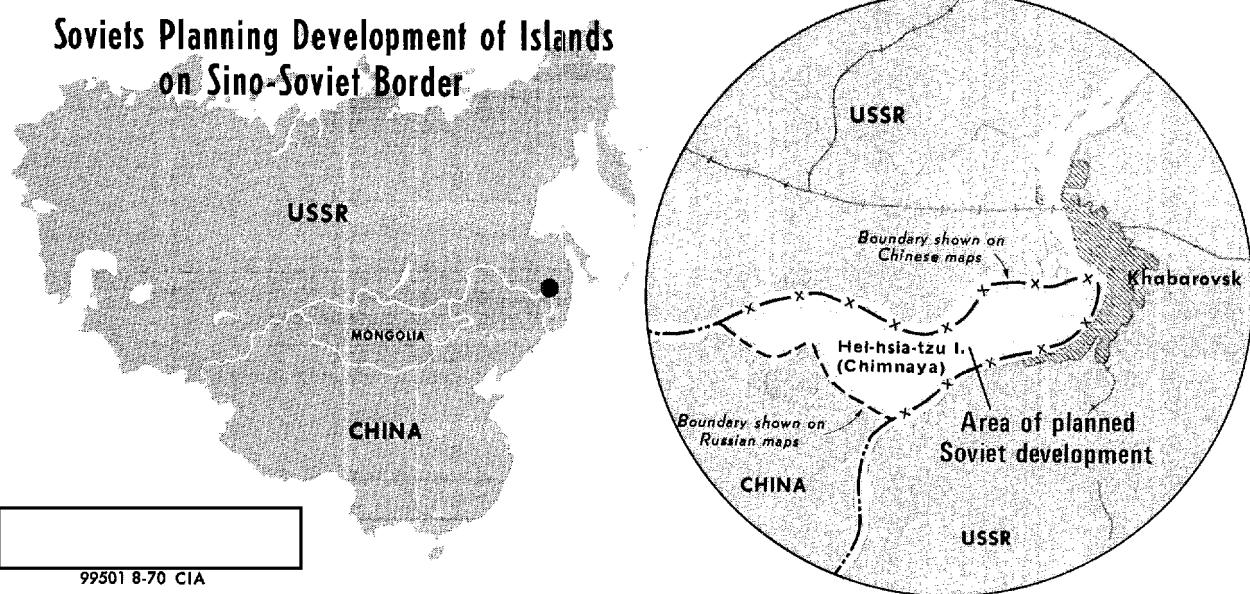
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USSR - Communist China: The Soviets have deliberately raised one of the most sensitive issues in their territorial dispute with China.

In an article in an important party newspaper, Soviet Russia, on 2 August--the full text of which is now available--two Soviet planners propose that extensive agricultural development take place on an island area at the confluence of the Ussuri and Amur rivers opposite Khabarovsk--a key Soviet Far Eastern city and headquarters for the Far East Military District. The authors leave the impression that this is merely a local project of the Khabarovsk government in keeping with a recent Central Committee decision to step up land reclamation activities in the Far East and elsewhere.

The island area is in fact by far the most important of the more than 700 islands in the Amur and Ussuri which are subject to conflicting claims by Moscow and Peking. Although Moscow realizes that the Chinese have a good legal case based on international law to support their claim to the area, Soviet officials have privately stressed that they view its continued control as critical because of its strategic location just a stone's throw from Khabarovsk.

Until the appearance of the newspaper article, both sides had carefully avoided public mention of the area since the Peking border talks got underway last October. Moscow now appears bent on enhancing its claim to the area and wants to impress Peking that the claim is not negotiable. The Soviet leaders are aware that by deliberately publicizing this crucial and contentious issue they run the risk of triggering loud protests from Peking, which itself may be provoked to mount its own "development" program for disputed territory. Although the appearance of the article probably will not prompt the collapse of talks, it clearly underscores the lack of movement in the ten-month-old border negotiations, and bodes ill for their future progress.

[] (Map)

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UN-Seabeds: The draft convention on the international seabeds area, which was submitted to the UN Seabeds Committee in Geneva on 3 August as a working paper for discussion purposes, has received an initially favorable response.

The purpose of the convention is to set up an organization for regulating exploration and exploitation of the seabeds beyond the limits of national jurisdiction. Although there was no immediate reaction in committee, a number of delegations expressed pleasure informally that the US had circulated such a convention. Both Britain and France submitted separate proposals, but other drafts were in many ways similar to the US paper.

The Soviet Union has apparently moderated its previous opposition to any form of international machinery to administer the deep seabeds. Though not commenting directly on the US proposal, the Soviet delegate advocated in his opening address the drafting of a treaty to establish such machinery on a "realistic" legal basis.

The principal sour note, as expected, has been sounded by the Latin Americans. The Chilean delegate charged that the US formula would discriminate against countries with narrow continental margins. The current meeting in Lima, Peru, on Law of the Sea issues--scheduled to end today--will probably result in a declaration supporting the right of each country to determine the extent of its own territorial sea.

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Uruguay: The Uruguayan cabinet yesterday afternoon upheld its intention not to negotiate with the Tupamaros despite the imminence of the terrorists' deadline.

The government and the Tupamaros traded blows yesterday as the terrorists kidnaped another American and police captured a dozen Tupamaros, including two top leaders. An American agricultural specialist was the latest victim of the Tupamaros. They have threatened to "pronounce sentence" on him, along with the AID officer and the Brazilian first secretary who were abducted on 31 July, unless the government agreed to release all political prisoners by midnight last night.

As the deadline approached the diplomatic community issued a joint appeal to the kidnappers and the government urging a humanitarian solution. Meanwhile, the Brazilian Government began exerting heavy pressure on the Uruguayan administration to act rapidly to gain the diplomat's safe return. The foreign minister has called the Uruguayan Ambassador to Brasilia to emphasize his government's concern.

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Yemen: The country, suffering the effects of a severe famine, has received aid from several countries. Saudi Arabia, which recently extended diplomatic recognition, has promised a \$7.2 million-credit repayable in five years with a two-year grace period. Although diplomatic relations have not been resumed, the US has extended \$4 million in Commodity Credit Corporation credits for the purchase of wheat and flour. US famine aid also has been administered through the World Food Program and the Catholic Relief Service. [redacted]

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Hungary-Algeria: Budapest announced on 3 August that it will extend \$20 million in credit for Algeria's economic development. Algeria will use this assistance to obtain complete plants and equipment from Hungary as part of its four-year development plan. In addition, Hungary has agreed to provide training for Algerian technicians. Earlier this year, East Germany and Bulgaria agreed to provide long-term assistance amounting to at least \$54 million. The amount has even been reported to be as high as \$140 million. [redacted]

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Jamaica: The government has taken another step toward gaining a more "meaningful participation" in foreign-owned industries. The Finance Ministry has informed foreign life insurance companies that they must soon make at least 25 percent of their equity available to local investors. In addition, they must offer a total of 51-percent equity within the next six years. Those companies that are not currently 51 percent locally owned will be subjected to a 1.5-percent additional tax on premium income. The government also has been negotiating with the bauxite and sugar industries for greater participation. [redacted]

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